ShawandPartners
Financial Services

Peninsula Energy (PEN)

Rating: Buy | Risk: High | Price Target: $0.27

1 November 2023

September Quarter – revised Lance Uranium plan

Key Information

Current Price ($ps)	0.13
12m Target Price ($ps)	0.27
52 Week Range ($ps)	0.09 - 0.20
Target Price Upside (%)	108.9%
TSR (%)	108.9%
Reporting Currency	USD
Market Cap ($m)	160
Sector	Energy
Avg Daily Volume (m)	4.0
ASX 200 Weight (%)	0.01%

Fundamentals

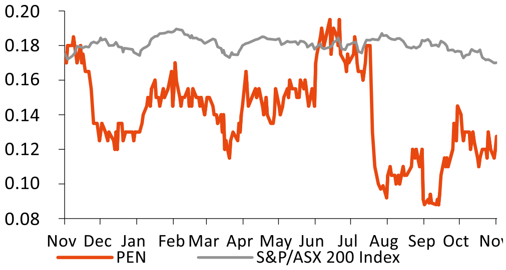
YE 30 Jun (USD)	FY23A	FY24E	FY25E	FY26E
Sales ($m)	40	13	38	104
NPAT ($m)	(4)	(2)	(6)	35
EPS (cps)	(0.3)	(0.1)	(0.3)	1.6
EPS Growth (%)	23.3%	55.9%	nm	656.6%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	#VALUE!

Ratios

YE 30 Jun	FY23A	FY24E	FY25E	FY26E
P/E (x)	(36.3)	(58.8)	(27.3)	4.9
EV/EBITDA (x)	(20.3)	(32.8)	(40.9)	1.8
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(8.3%)	51.7%	30.4%	(24.3%)
Absolute (%)	(12.1%)	44.9%	21.4%	(27.1%)
Benchmark (%)	(3.8%)	(6.8%)	(9.0%)	(2.8%)



Price performance indexed to 100 *Source: FactSet*

Major Shareholders

Paradice Investment Management	8.8%

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Event

Peninsula has released its September quarter activities report. The key activity was the revised strategy for the Lance Uranium Projects post the decision from UEC not to extend the resin processing contract. Peninsula will now proceed with a larger and accelerated production plan with a fully integrated processing plant. Peninsula has also established the Dagger Uranium Project located approximately 20km NE of its Lance Uranium Project.

Highlights

- Lance is an In-Situ Recovery (ISR) uranium project whereby uranium is leached from the orebody in an acid solution before being recovered in an ion-exchange resin. Stage 1 of the Lance Uranium Project was about to enter first commercial production in July when UEC cancelled its contract to process the uranium bearing resin from Lance. Peninsula has had to adjust its plans to accelerate its stage 2 expansion and incorporate its own resin processing into the processing plant.
- During the quarter, Peninsula announced a revised processing plan which includes:
  - First production in Dec-24 and ramping up to 1.8Mlb steady state by 2029.
  - Remaining capex to first production of US$53.4m, with a further US$17.4m required to reach full production rates. The peak funding requirement to get to breakeven cash flow is US$95m.
  - C1 operating costs of US$21.69/lb and AISC of US$42.46/lb.
- Post the end of the quarter Peninsula has announced the establishment of the Dagger Project approximately 20 km NE of the Ross Processing Plant at Lance. At Dagger, Peninsula has accumulated 4,140 acres of prospective uranium exploration with a current Resource of 3Mt @ 1,037ppm for 6.9Mlb of contained U3O8. Peninsula is planning a drilling campaign in 2024 with the objective of upgrading the Resource.
- The delay to first production at Lance was a set-back for company which has seen Peninsula shares significantly under-perform its uranium peer group. Whilst the delay was frustrating and disappointing, it has not significantly affected the valuation of the Lance Project and in our view Peninsula is now trading significantly below fair value.
- When we compare Peninsula with Boss Energy (BOE, Sell, PT $3.60), there are a lot of similarities and yet Peninsula has an enterprise valuation around 1/10th that of Boss (US$75m v US$861m). Both companies have in-situ leach uranium operations in first world jurisdictions, both will produce around 2Mlb/yr, both will be in production within 2 years and both have a similar sized resource with substantial exploration upside. The main difference is that Boss is fully funded, is closer to first production and is lower cost (Boss AISC of US$26/lb). Boss deserves to trade at a premium, but in our view the valuation gap is now too wide.
- Another interesting valuation comparison is with Uranium Energy Corporation (UEC, not rated). UEC has a market capitalisation of US$2.05b, cash of US$124m and a uranium inventory worth US$53m. It has two ISR processing hubs in the USA – Irigaray with capacity of 2.5Mlb/r (the plant that Lance was using), and Hobson with capacity of 4Mlb/yr. UEC is at a similar stage to Peninsula with plans to ramp up production over coming years. UEC is trading at an enterprise valuation of US$288/klb of installed capacity whereas Peninsula is trading at just US$42/klb of capacity.
- Peninsula has available cash of US$12.5m at 30-Sep and a 210klb uranium inventory worth US$15.5m and will require additional funding for Lance. The company estimates that it will require US$95m to reach positive cash flow.

Recommendation

We retain our BUY recommendation and price target of A$0.27ps which is set at a 30% premium to our DCF, in line with our uranium sector coverage.

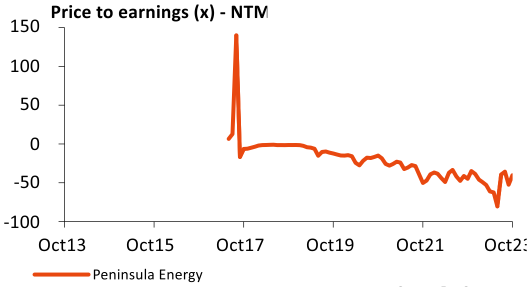
Peninsula Energy
Energy
Energy
FactSet: PEN-AU / Bloomberg: PEN AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.13
Target Price ($ps)	0.27
52 Week Range ($ps)	0.09 - 0.20
Shares on Issue (m)	1,257
Market Cap ($m)	160
Enterprise Value ($m)	143
TSR (%)	108.9%

Company Description

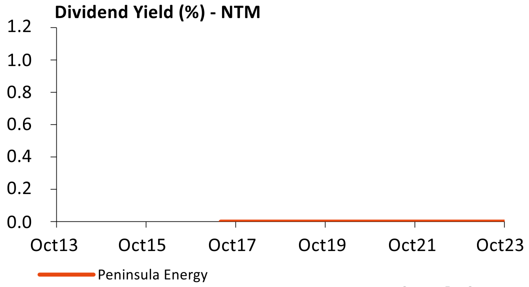
Peninsula Energy is an ASX listed company that owns the Lance Uranium Project in Wyoming, USA which are in transition from an alkaline to a low pH in-situ recovery operation. The Lance Project requires low upfront capital and can rapidly restart post a Final Investment Decision. PEN is the only ASX company with direct exposure to US Government initiatives which are pro-domestic mine development.

Price to earnings (x) - NTM



Source: FactSet

Dividend Yield (%) - NTM



Source: FactSet

Financial Year End: 30 June

Investment Summary (USD)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS (Reported) (cps)	**(0.4)**	**(0.3)**	**(0.1)**	**(0.3)**	**1.6**
EPS (Underlying) (cps)	**(0.4)**	**(0.3)**	**(0.1)**	**(0.3)**	**1.6**
EPS (Underlying) Growth (%)	(64.3%)	23.3%	55.9%	nm	656.6%
PE (Underlying) (x)	**(26.2)**	**(36.3)**	**(58.8)**	**(27.3)**	**4.9**
EV / EBIT (x)	**(15.4)**	**(20.3)**	**(32.8)**	**(12.4)**	**2.5**
EV / EBITDA (x)	**(15.4)**	**(20.3)**	**(32.8)**	**(40.9)**	**1.8**
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	#VALUE!
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	1.0%	(5.7%)	(22.6%)	(34.9%)	7.6%

Profit and Loss (USD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	18	40	13	38	104
Sales Growth (%)	*87.2%*	*120.8%*	*(68.8%)*	*202.0%*	*172.8%*
Other Operating Income	1	0	0	0	0
EBITDA	**(6)**	**(4)**	**(3)**	**(2)**	**49**
EBITDA Margin (%)	*(31.9%)*	*(11.0%)*	*(21.7%)*	*(5.8%)*	*47.3%*
Depreciation & Amortisation	0	0	0	(5)	(13)
EBIT	**(5.8)**	**(4.4)**	**(2.7)**	**(7.3)**	**36.1**
EBIT Margin (%)	*(31.9%)*	*(11.0%)*	*(21.7%)*	*(19.1%)*	*34.7%*
Net Interest	0	0	0	1	(1)
Pretax Profit	(6)	(4)	(2)	(6)	35
Minorities	0	0	0	0	0
NPAT Underlying	**(6)**	**(4)**	**(2)**	**(6)**	**35**
Significant Items	(1)	0	0	0	0
NPAT Reported	**(5)**	**(4)**	**(2)**	**(6)**	**35**

Cashflow (USD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
EBIT	(6)	(4)	(3)	(7)	36
Tax Paid	0	0	1	0	0
Net Interest	0	0	0	1	(1)
Change in Working Capital	0	0	(5)	(6)	(18)
Depreciation & Amortisation	0	0	0	5	13
Other	8	9	0	0	0
Operating Cashflow	**2**	**5**	**(6)**	**(7)**	**30**
Capex	(1)	(12)	(25)	(52)	(17)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	(0)	0	0	0
Investing Cashflow	**(1)**	**(12)**	**(25)**	**(52)**	**(17)**
Free Cashflow	**1**	**(7)**	**(31)**	**(60)**	**13**
Equity Raised / Bought Back	0	21	60	0	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	35	0
Other	(0)	0	0	0	0
Financing Cashflow	**(0)**	**21**	**60**	**35**	**0**
Exchange Rate Effect	(0)	0	0	0	0
Net Change in Cash	**1**	**14**	**29**	**(25)**	**13**

Balance Sheet (USD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	8	21	51	26	39
Accounts Receivable	1	1	1	3	9
Inventory	15	12	14	20	34
Other Current Assets	6	0	0	0	0
PPE	19	24	46	88	90
Accounts Payable	1	4	1	3	4
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	0	35	35
Total Liabilities	**15**	**19**	**17**	**54**	**55**
Total Shareholder Equity	**73**	**91**	**149**	**143**	**177**

Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
ROE (%)	(5.3%)	(4.2%)	(1.9%)	(4.3%)	21.6%
Gearing (%)	(11.3%)	(30.3%)	(51.2%)	5.8%	(2.4%)
Net Debt / EBITDA (x)	1.3	4.8	18.5	(4.0)	(0.1)
Price to Book (x)	1.4	1.6	1.1	1.2	1.0

Lance Project Revisions

In July 2023, on the verge of restarting the operation, Peninsula Energy was forced to delay the start-up of its Lance uranium project in Wyoming, US due to the cancellation of a resin processing contract with Uranium Energy Corp (UEC:NYSE not covered).

Since mid-2015, Peninsula was party to a resin processing agreement under which loaded resins generated at the Lance Projects (Lance) are treated at UEC's Irigaray Central Processing Plant to produce a finished yellowcake product. Peninsula received notification that UEC is terminating the agreement. The agreement contained a mutual 270-day notice of termination provision.

Stage 1 of the Lance Uranium Project was about to enter first commercial production. Production was expected to ramp up to 0.8Mlbpa of uranium production before moving to a stage 2 expansion to 2Mlbpa of production in FY26.

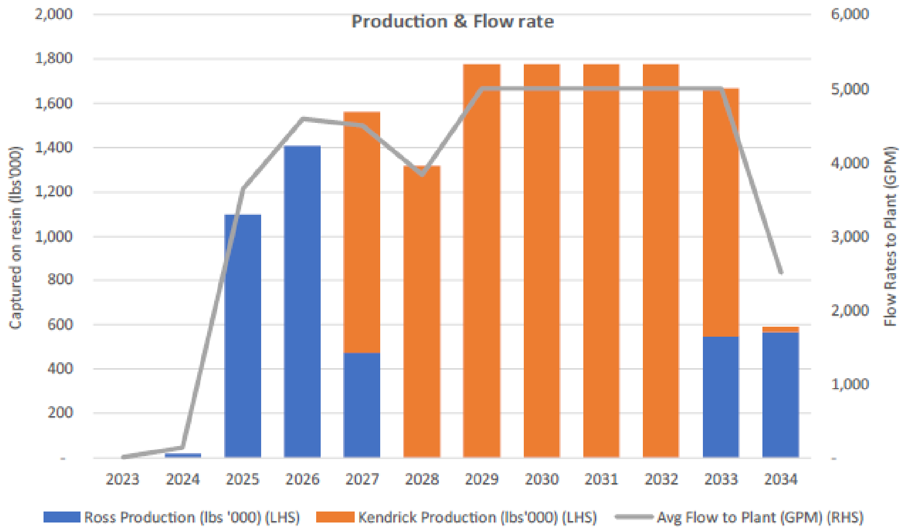
Lance is an In-Situ Recovery (ISR) uranium project whereby uranium is leached from the orebody in an acid solution before being recovered in an ion-exchange resin. In stage 1 of the project the plan was to process the uranium-bearing resin in a processing facility operated by UEC. We do not know the reason why UEC terminated the agreement, although we assume it will be to do with UECs development of its own ISR uranium operations in the US.

Peninsula recently released a revised production plan for Lance which involves moving directly to stage 2 and accelerating the construction of its own resin processing plant at Lance. Key features of the revised plan include:

- First production in Dec-24 and ramping up to 1.8Mlb steady state by 2029.
- Remaining capex to first production of US$53.4m, with a further US$17.4m required to reach full production rates. The peak funding requirement to get to breakeven cash flow is US$95m.
- C1 operating costs of US$21.69/lb with AISC at US$42.46/lb.

The revised production plan sees first production in late CY24 and ramping up to 1.8Mlb by 2029. The revised plan has a faster initial ramp-up (higher production in 2025 and 2026) but a lower steady state peak (1.8Mlb v 2.0Mlb). There is also a planned step down in production in 2028 as the operation shifts from Ross to Kendrick although we would not be surprised to see this revised up as the plan continues to be refined.

Figure 1: Revised production plan



Source: Peninsula ASX release 31-Aug-23

Figure 2: Key financial outcomes

Key Ross & Kendrick Financial Outcomes	US$
LoM CAPEX	285.8M
Remaining CAPEX to First Production[1]	53.4M
Ramp-up stage CAPEX (first production to 5,000 GPM flow)	17.4M
LoM Wellfield Replacement & Sustaining CAPEX	215.0M
LoM Project Revenue from Sale of Lance Production (real)	988M
Weighted Average Sales Price used in the LoM	67.07/lb
Average Price Received for Uncontracted Production	72.62/lb
LoM Operating Cashflow (before tax)	258.2M
NPV_8	116.2M
IRR	26%
All in Sustaining Costs (AISC)	42.46/lb
All in Costs (AIC)	50.27/lb

1) Excludes sunk CAPEX spent between January and June 2023

Source: Peninsula ASX release 31-Aug-23

The capital cost estimates did not change materially, but the timing of the expenditure has changed. The additional capex at the processing plant is only US$19.3m, but there will need to be US$25.4m spent on wellfield development ahead of first production with a further US$15.9m spent to bring the facility to full production. Approximately US$70m will be required to reach cash break-even

Figure 3: Capital Expenditure

Ross & Kendrick Project Level CAPEX Requirements	(US$M)
LoM CAPEX	**285.8**
Remaining CAPEX to 1st Production	**53.4**
- Process Plant	19.3
- Wellfield	25.4
- General	5.1
- Contingency	3.6
Ramp-up Stage CAPEX (1st Production to flow capacity)	**17.4**
- Wellfield	15.9
- General	0.8
- Contingency	0.8
LoM Wellfield Replacement & Sustaining CAPEX (including contingency)	**215.0**

Source: Peninsula ASX release 31-Aug-23

In addition to the capital costs, there will also be initial operating losses to fund, corporate overheads and working capital. Peninsula estimates a total funding requirement of US$142m, of which US$47m is covered from cash and initial revenues, leaving a US$95m funding requirement from alternative sources (debt and equity).

Figure 4: Sources and uses of funds

Sources (US$M)	142.4
Cash Balance as of 30 June 2023	21.4
Revenue on Sales (net of purchases)	26.0
Net additional Funding Needed	95.0
Uses (US$M)	**142.4**
Plant CAPEX	25.2
Wellfield CAPEX	41.2
Site OPEX and Overheads	44.3
CAPEX and OPEX Contingency plus escalation	9.4
Corporate Costs, Non-site Exploration, Working Capital	22.3

Source: Peninsula ASX release 31-Aug-23

Dagger uranium Project

Peninsula has acquired 4,140 acres of prospective uranium exploration tenements which have been consolidated into the Dagger Uranium Project.

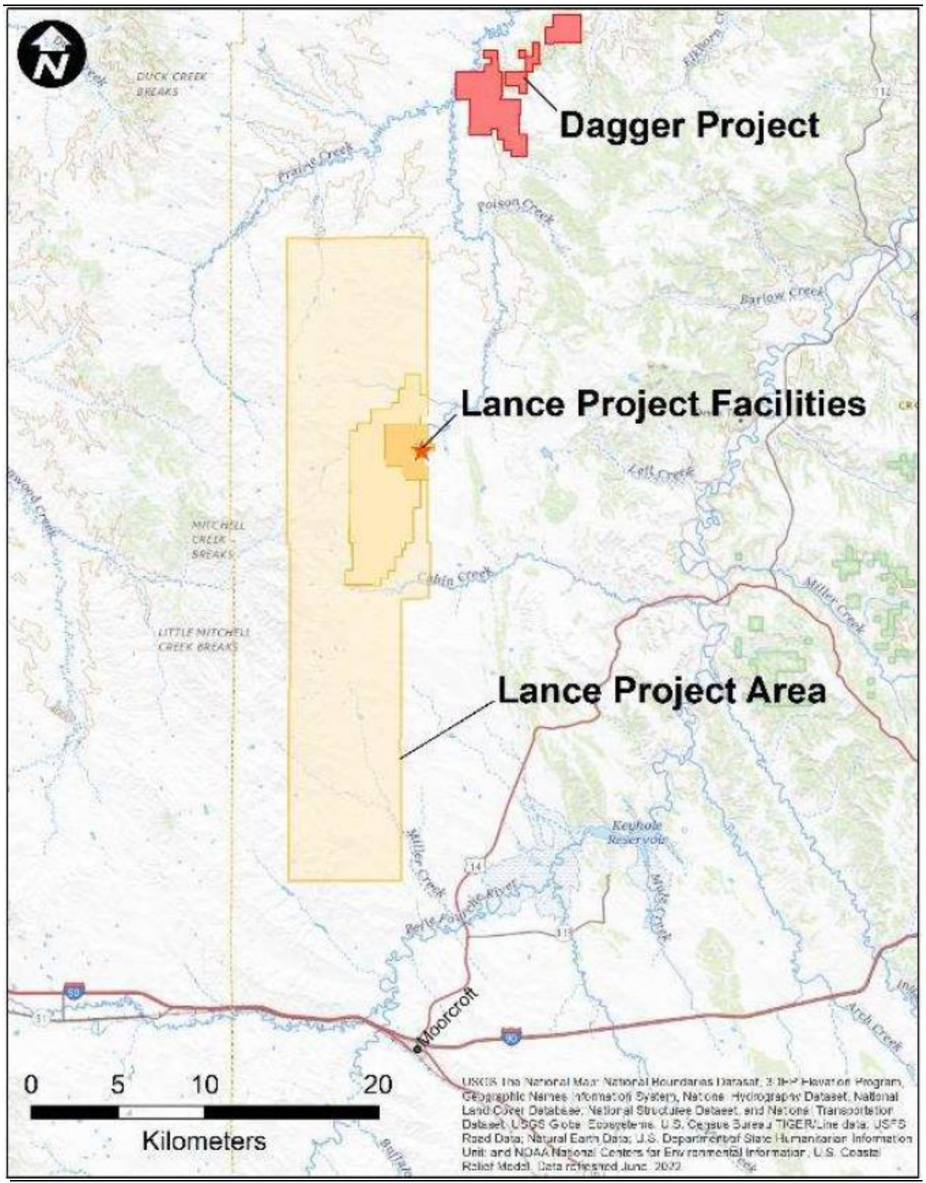
Peninsula established the Dagger Project through a series of mineral rights and data acquisition transactions spanning an eight-year period. The latest acquisition of mineral rights was completed with a private party and finalized recently. The combined State and Federal Mineral rights cover an area with historically identified uranium mineralization contiguous to past uranium mining sites.

Dagger Project is located in Crook County, Wyoming within the North Black Hills district in the Northeast corner of the State, approximately 20 km Northeast of the Company's Ross Processing Plant at Lance. The project is directly accessible from Lance via existing public roadways.

Dagger provides the Company with a relatively high-grade uranium resource, location diversity within a top mining jurisdiction and further opportunities to increase the scale and quality of Peninsula's mineral resource holdings. Dagger also provides the opportunity to develop a satellite production operation in close proximity to Lance.

Peninsula is planning a drilling program in FY24 to facilitate a potential resource upgrade.

Figure 5: Dagger project location



Source: Peninsula ASX release 23-Oct-23

Peninsula v Boss Energy

We recently downgraded Boss Energy to SELL with a $3.60 price target post a period of significant outperformance. This was purely a valuation call, and we continue to view Boss Energy as one of the premium companies in the sector. Nonetheless, in our view the stock is now fully valued, especially relative to a peer like Peninsula Energy.

There are a number of similarities between Boss and Peninsula including:

- Both are In-situ Recovery operations (ISR),
- Both will produce about 2Mlb/y of uranium,
- Both will be in production within two years,
- Both are in 1st world jurisdictions (South Australia, Wyoming),
- Both have a similar sized resource with exploration upside.

Boss has advantages over Peninsula including:

- Boss is fully funded to first production,
- Boss is closer to first production,
- Boss is located in Australia making it easier for ASX investors to access,
- Boss is lower cost (AISC of US$26/lb v US$42/lb for PEN).

However, Peninsula also has some advantages over Boss including:

- Peninsula is in the US so has access to strong US government support for its domestic nuclear industry and uranium supply,
- Peninsula could be a beneficiary of potential US uranium import ban from Russia,
- Peninsula is higher cost, but that means more leverage to a rising uranium price,
- Peninsula is trading at suppressed valuations due the requirement for funding, but as we've seen with Boss and Paladin, once funding is arranged the stock is likely to significantly re-rate higher.

Figure 6: Uranium Sector valuation comparisons

Company	Paladin	Boss	Lotus	Peninsula	Bannerman	Silex	Deep Yellow	Nexgen
Ticker	PDN	BOE	LOT	PEN	BMN	SLX	DYL	NXE
Exchange	ASX	ASX	ASX	ASX	ASX	ASX	ASX	ASX/TSE
Main Asset	Langer-Heinrich	Honeymoon	Kayelekera	Lance	Etango	PLEF	Tumas	Rook I
Jurisdiction	Namibia	South Aust.	Malawi	Wyoming, US	Namibia	US	Namibia	Canada
Share Price (LC)	0.95	4.32	0.23	0.12	2.56	3.21	1.26	7.81
Recommendation	BUY	Sell	BUY	BUY	BUY	BUY	Not Rated	Not Rated
Price Target (A$ps)	1.15	3.60	0.53	0.27	3.20	5.80		
Upside/downside (%)	22%	-17%	132%	122%	25%	81%		
Market Cap (US$m)	1,804	976	199	97	247	485	609	2,824
Cash & equivalents (US$m)	126	144	10	21	27	88	26	265
EV (US$m)	1,678	831	189	75	219	396	583	2,559
Implied U3O8 price (US$/lb)	90	115	60	58	69	52		
Resource (net Mlbs)	414	72	51	54	225	75	204	337
Grade (ppm)	686	620	648	480	197		398	31000
EV / Resource (US$/lb)	4.1	11.6	3.7	1.4	1.0	5.3	2.9	7.6
Attrib Prod'n target (Mlb/yr)	4.5	2.45	2.4	2	3.5	2.5	3.6	28.8
AISC (US$/lb)	33	26	38	42	38	<30	39	10.6
EV / production forecast (US$/lb)	373	339	79	38	63	159	162	89
DFS valuation (US$m)		309		116	209		393	4,275
Premium to DFS (%)		169%		-35%	5%		48%	-40%
Shaw valuation main project (US$m)	875	396	295	136	199	456		
Shaw total valuation (US$m)	1,864	631	368	243	322	1,025		
Premium to Shaw main project val'n (%)	92%	110%	-36%	-45%	10%	-13%		
Premium to Shaw total valuation (%)	-10%	32%	-48%	-69%	-32%	-61%		

Source: Company Reports, Factset, Shaw and Partners

Key risks

- As a small mining company broadly exposed to a single commodity and a single asset we consider an investment in Peninsula Energy to be high risk. The key risks include:
- The U3O8 market is relatively opaque and difficult to forecast. The actual uranium price may differ substantially from our forecasts.
- Operations for PEN have not yet started and there is a risk that they may be unable to bring Lance Projects to production in line with expectations. Costs may be higher and operations may not be as expected.
- Resource risks - PEN’s 2022 Ross and Kendrick DFS assumes an overall resource recovery of 66% and a resource conversion of 61% to convert the Ross and Kendrick Area Inferred resources to Indicated or greater quality.
- PEN will need to recapitalise to fund the commencement of operations. There is a risk that capital markets are not willing to fund the project.
- Forecasting future operating costs has considerable uncertainty. Our forecasts may prove to be too optimistic. If each company’s costs are higher than we expect then our cash flow forecasts will be too high.
- Smaller companies carry more significant ‘key personnel’ risk than larger organisations. If senior management depart it could delay projects or exacerbate operational risks.
- Safe and reliable production from operations once projects are operational. The inability to maintain safe and reliable operations may result in a sustained, unplanned interruption to production and impact the company’s licence to operate and financial performance. Production facilities are subject to operating hazards associated with major accident events, cyber-attack, inclement weather and disruption to supply chain, that may result in a loss of uranium (radioactive material) containment, harm to personnel, environmental damage, diminished production, additional costs, and impacts to reputation or brand.

Core drivers and catalyst

- PEN’s flagship Lance Projects in Wyoming, USA, requires low upfront capital and can rapidly restart. PEN is the only ASX company with direct exposure to US Government initiatives which are pro-domestic mine development. We have a A$0.27ps price target which is based on a 1.3x multiple of our base case valuation.
- PEN’s flagship Lance Projects in Wyoming, USA, requires low upfront capital and can rapidly restart. PEN is the only ASX company with direct exposure to US Government initiatives which are pro-domestic mine development. We have a A$0.27ps price target which is based on a 1.3x multiple of our base case valuation.
- PEN has an existing contract book and product inventory, with a binding purchase agreement netting a cash margin of US$7.8m in CY2021 (450klbs) and >US$9m in CY22 (450klbs). The company has long-term sales contracts extending to 2033, up to 5.25Mlbs at US$56-58/lb U3O8 with major utilities across Europe and the US.
- The company is switching operations from high to low pH in order to increase product yields. The results of an 18-month field demonstration indicated that the targeted low-pH chemistry and field patterns are effective in dissolving and recovering uranium.
- The company released a Definitive Feasibility Study in Aug22 which details a Lance Projects NPV8 (pre-tax) of US$125m and 43% IRR at an average U3O8 price of US$62/lb. Other components include. In August 2023 the company released a revised plan to move directly to the previous stage 2 operation. Key parameters include: a life of mine (LOM) of 10 years with a plateau production of 1.8Mlbs/yr, upfront capital expenditure of ~US$70m, and an estimated All-in-Sustaining-Cost (AISC) of US$42/lb U3O8 over LOM.
- In our view there are two key advantages to PEN’s project being located in Wyoming, USA: the Powder River Basin in Wyoming is in an established uranium and mining jurisdiction (uranium mining for ~70 years and coal mining for ~150 years), and the company has direct exposure to the US Government uranium purchase program and the US Nuclear Fuel Working Group.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

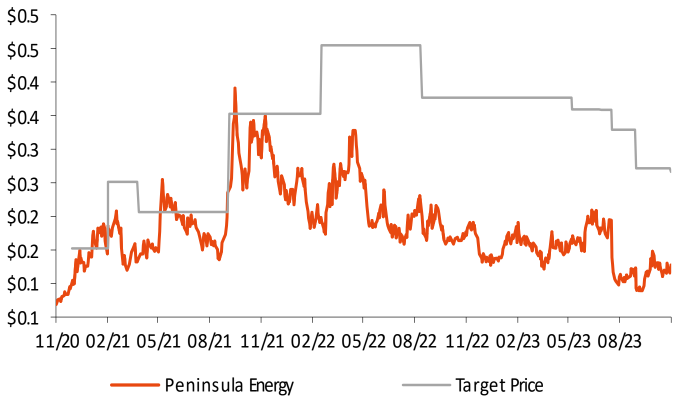
RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	74	96%
Hold	2	3%
Sell	1	1%

History of Investment Rating and Target Price - Peninsula Energy

Date	Closing Price ($)	Target Price ($)	Rating
1-Nov-23	0.13	0.27	Buy
31-Aug-23	0.09	0.27	Buy
19-Jul-23	0.13	0.31	Buy
27-Jun-23	0.17	0.34	Buy
9-May-23	0.15	0.34	Buy
15-Aug-22	0.18	0.34	Buy
17-Feb-22	0.17	0.40	Buy
5-Sep-21	0.20	0.30	Buy
2-Jun-21	0.18	0.17	Buy
29-Mar-21	0.12	0.17	Buy
2-Feb-21	0.16	0.21	Buy
30-Nov-20	0.08	0.13	Buy



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